

VZCZCXRO9917
PP RUEHBI
DE RUEHLM #1982/01 3320812
ZNR UUUUU ZZH
P 280812Z NOV 06
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC PRIORITY 4820
INFO RUEHKA/AMEMBASSY DHAKA 9646
RUEHIL/AMEMBASSY ISLAMABAD 6576
RUEHKT/AMEMBASSY KATHMANDU 4633
RUEHLO/AMEMBASSY LONDON 3354
RUEHNE/AMEMBASSY NEW DELHI 0281
RUEHNY/AMEMBASSY OSLO 3443
RUEHKO/AMEMBASSY TOKYO 2531
RUEHCG/AMCONSUL CHENNAI 7117
RUEHBI/AMCONSUL MUMBAI 4924
RHEHNSC/NSC WASHDC
RUEHBS/USEU BRUSSELS
RHHMUNA/HQ USPACOM HONOLULU HI

UNCLAS SECTION 01 OF 03 COLOMBO 001982

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SENSITIVE

E.O. 12958: N/A

TAGS: [PREL](#) [PGOV](#) [PHUM](#) [PTER](#) [CE](#)

SUBJECT: SRI LANKA: PRESIDENT RAJAPAKSA'S REPORT CARD, ONE YEAR ON

11. (SBU) SUMMARY: President Mahinda Rajapaksa came to office in November 2005 after a campaign highlighting his strong Sinhalese nationalism. He made electoral pacts with the Marxist, Sinhalese chauvinist Janatha Vimukthi Peramuna (JVP) and the hard-line Buddhist monk-based Jathika Hela Urumaya (JHU). Rajapaksa's pre-election rhetoric, compiled in his manifesto "Mahinda Chintana" (Mahinda's thoughts), focused on a "unitary" Sri Lankan state and made a number of economic and infrastructure commitments, most of which he has not fulfilled. One year into the Rajapaksa presidency, the peace process has stalled, the ethnic conflict has re-ignited and economic development has not met the average voter's expectations. Yet economic growth remains high thanks to continued strong remittances and healthy rains that will help the politically crucial agricultural sector. The populist Rajapaksa remains popular among his Sinhalese base, despite widespread dissatisfaction among the intellectuals and elites of Colombo. End summary.

MAHINDA CHINTANA: "UNDIVIDED COUNTRY,
NATIONAL CONSENSUS, AND HONORABLE PEACE"

12. (SBU) President Mahinda Rajapaksa hinged his 2005 campaign on Sri Lanka's ethnic conflict, committing in both his electoral pacts and his manifesto "Mahinda Chintana" (Mahinda's thoughts) to review the 2002 Cease-Fire Agreement with the Liberation Tigers of Tamil Eelam (LTTE). His pacts with the Marxist, Sinhalese chauvinist Janatha Vimukthi Peramuna (JVP) and Buddhist monk-based Jathika Hela Urumaya (JHU) led analysts to believe Rajapaksa would take a hard line on the LTTE. However, Rajapaksa surprised many by later toning down his rhetoric and making overtures to the LTTE, resulting in government talks with the LTTE in Geneva in February 2006. Despite the initial positive step, the peace process did not move forward, and Rajapaksa's first year in office has seen a breakdown of the 2002 Cease-Fire Agreement and an upsurge in violence. On the positive side, Rajapaksa asked Norway to remain as facilitator for the peace process, despite vigorous objections from his erstwhile coalition partners, the JVP and JHU.

13. (SBU) Rajapaksa followed through on Mahinda Chintana's commitment to "Undivided Country, National Consensus, and Honorable Peace" by assembling an All-Party Conference (APC). Ambitiously, he promised to complete APC discussions within three months and to have a viable negotiating position to open direct talks with the LTTE. However, various Tamil parties, and even his principal opposition, the United National Party (UNP), did not participate. In October 2006, Rajapaksa made another effort to build a "southern consensus"

on the ethnic conflict by negotiating an historic Memorandum of Understanding with the UNP to work together on the peace process and other critical issues facing the country.

¶4. (SBU) Nevertheless, Rajapaksa has yet to fulfill campaign promises that could address some of the ethnic conflict's underlying causes. To date, he has failed to institute teaching of both the Tamil and Sinhala languages in schools, and to build two Tamil schools in Colombo and a Muslim Boys' school in Kandy. Rajapaksa has also reneged on promises to resettle the conflict's internally displaced persons (IDPs) expeditiously and with government financial assistance. His proposed "Jaya Lanka" program to assist tsunami-affected persons has yet to materialize, except for the

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permanent shelter component in his home constituency Hambantota.

MACRO ECONOMIC MANAGEMENT

¶5. (SBU) Mahinda Chinthana promised to achieve 8 percent growth over the next 6 years and ensure that benefits of growth filtered in to the general public and the poor. According to recent government projections, Sri Lankan economy is well on its way to achieving 7 percent growth in 2006, with growth projected at 7.5 percent in ¶2007. Mahinda Chintana has resulted in high inflation, with average inflation currently running over 12 percent (and 17 percent during the year beginning October 2005). Defending the high cost of living, the President in his budget speech said that people are ready to and should make sacrifices for national security. The budget deficit for 2006, estimated at 8.6 percent of GDP, has come at the expense of a substantial cut in public investment. Due to increased welfare spending and salary increases, recurrent expenses have increased sharply by 23 percent in 2006. Public debt is estimated to come down to 91.5 percent of GDP from about 105 percent

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as nominal GDP expanded due to inflation, not because government borrowing has been reduced.

HIGHER TAXATION, CONCESSIONS FOR SOME SECTORS

¶6. (SBU) The government has been forced to find funds for newly created government jobs, salaries, subsidies and welfare measures through increased taxation. Since coming to power, Rajapaksa has increased corporate and personal income taxes, import tariffs and other import charges. In addition, a new stamp duty on a range of transactions was introduced. The magnitude of the tax burden was highlighted by the World Bank in its Doing Business Report. According to the report, Sri Lankan businesses face one of the highest tax rates (75 percent of profits) in the world. Rajapaksa has kept to promises to assist some local industries, such as the film industry, construction, gem and jewelry and footwear with tariff protection and tax concessions.

MOST EDUCATIONAL AND ECONOMIC PROMISES UNFULFILLED

¶7. (SBU) On the social services side, Rajapaksa has begun to fulfill some of his key promises on the Samurdhi welfare program, an income transfer scheme aimed at the poorest of the poor. He increased Samurdhi payments by 50 percent in August 2006 - but only to half the recipient families. Other, less efficient programs have languished. He also promised an ambitious five-year development plan to establish a Ministry for Children and provide greater assistance to children's homes, daycare centers, and pre-schools. Most analysts discounted these as mere electioneering, and in fact, the president has not delivered on any of these commitments. He did establish a Ministry of Child Development and Women's Empowerment.

¶8. (SBU) Rajapaksa kept his "University for All" promise from the Mahinda Chintana, earmarking increased scholarship money in the 2007 budget. However, in his 2006 budget, Rajapaksa managed to create only 3000 jobs of the 10,000 public sector jobs he had promised to

unemployed graduates. He included funding for an additional 7000 jobs in 2007. From the beginning, it has been clear that the promise of employment was to win votes rather than to improve the bloated government -- which has over 70 ministries crammed into numerous office buildings filled with bored, underworked staff. Some new employees have reportedly been encouraged not to show up for work since there is nothing for them to do, and no workspace.

AGRICULTURAL, INFRASTRUCTURE POLICIES:
WAITING FOR IMPLEMENTATION

¶9. (SBU) Rajapaksa partly fulfilled one key campaign promise to provide fertilizer at a subsidized price. However, to date only paddy farmers have benefited from the subsidy, while other farmers have not. Rajapaksa's proposed Paddy Marketing Board to set price floors for rice sales is still on the drawing board. Mahinda Chintana also pledged the rehabilitation of 10,000 water "tanks" (irrigation ponds), but the government failed to deliver. The promised National Land Policy to allocate 100,000 plots of land to farmers did not even reach the discussion stage in 2006.

¶10. (SBU) Rajapaksa also included "Electricity for All" in his manifesto, promising research and construction of thermal, hydro, wind, and solar power plants. The government has taken no tangible steps with regard to these initiatives, although a coal power plant in Norochcholai is under development. Meanwhile, the government continues straining its limited coffers to keep afloat inefficient state-owned companies which manage subsidized energy production. Mahinda Chintana also promised to tap offshore oil and natural gas deposits and to channel benefits public quickly. Rajapaksa declared that oil and gas revenues would be a panacea for Sri Lanka's economic problems. Despite political pressure for a rapid exploitation of reserves, it appears that politicians are willing to wait for a well-designed plan that will strike a reasonable balance between appropriate development and expediency.

REGIONAL DEVELOPMENT,
PROMISES TO HIS CONSTITUENCY

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¶11. (SBU) Regional development beyond the well-off Western Province (which includes Colombo) was a key part of Rajapaksa's campaign rhetoric. Rajapaksa is clearly attempting to keep his promise to people in his constituency in the Sinhalese south. Work on the highway connecting Colombo to Matara continues. Recently the GSL and donors decided to widen the highway to 4 lanes by 2010 and are conducting feasibility studies to extend the road to Hambantota. Government agencies are planning an airport and a port in Hambantota. On the other hand, Mahinda Chintana had promised to construct 20 overpasses in Colombo within three years to minimize traffic congestion and accidents at road-rail crossings. The Road Development Authority reported no discussions to date on these proposals.

¶12. (SBU) COMMENT: Rajapaksa has a no better than average record for politicians when it comes to delivering on his campaign rhetoric. While the long-running ethnic conflict is no closer to resolution now than when he took office, the Tamil Tigers bear a large share of the blame for the resumption of hostilities. The focus on the violence has taken up most of the national debate - and taken some heat off the President to perform on his other promises. Still, Rajapaksa could do more to address Tamil concerns, for example, by promoting dual-language instruction in schools according to the commitment he made in Mahinda Chintana.

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